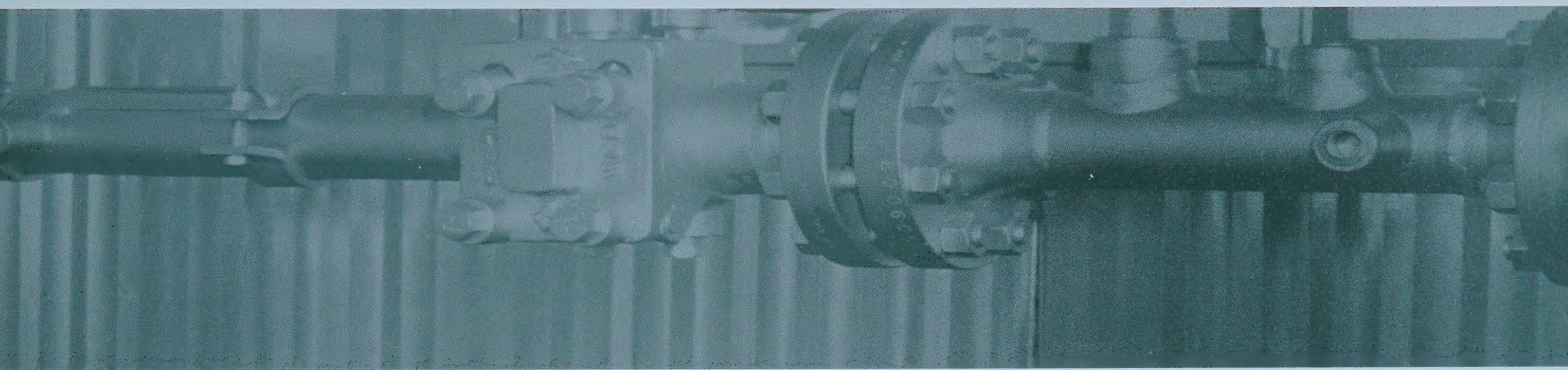
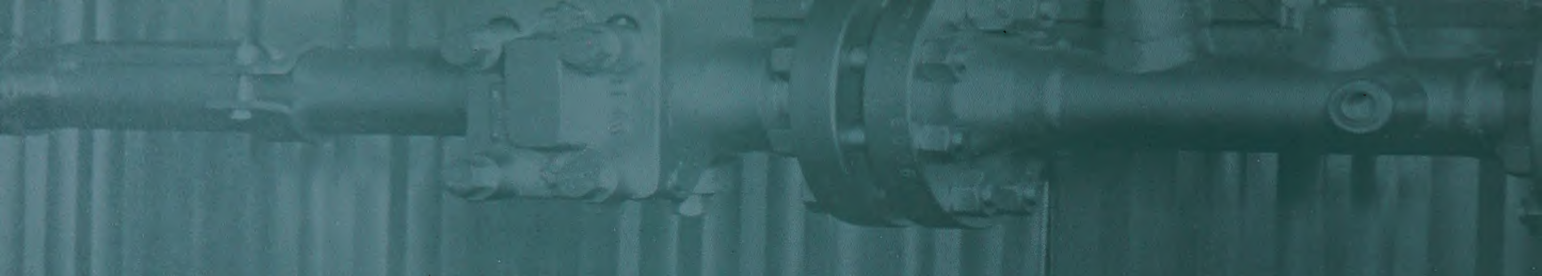
sheer energy inc.



1999 Annual Report



Corporate Profile

Sheer Energy Inc. is a publicly traded oil and gas exploration and production company. Eighty-six percent of the Company's revenues are generated from gas production, with in excess of one-half of all gas revenue being derived from an interest in the South Edson Gas Unit No. 1.

The Company is continuing to seek low risk development opportunities in Western Canada and internationally.

FINANCIAL SUMMARY

Year ended December 31	1999	1998
Total Revenue (net of royalties)	**$ 548,018**	$ 325,995
Cash Flow from Operations	**133,816**	84,433
Cash Flow from Operations/Share (fully diluted)	**0.02**	0.02
Earnings (loss)	**37,991**	(12,877)
Earnings (loss)/Share (fully diluted)	**0.01**	nil
Capital Expenditures	**190,281**	624,038
Total Assets	**1,295,560**	1,305,369
Commons Shares Outstanding (December 31)	**4,837,863**	4,100,003

Effective January 1, 1999 the Company changed its method of accounting for income taxes from the deferral method to the liability method of allocation. The prior year's financial statements have been restated to reflect the adoption of the new accounting standard.

ANNUAL MEETING

The Annual General Meeting of the Shareholders of Sheer Energy Inc. is to be held at 3:00 p.m., Thursday June 15, 2000 at Salon "C" of the Delta Bow Valley Hotel, 209–4th Avenue S. E., Calgary, Alberta.

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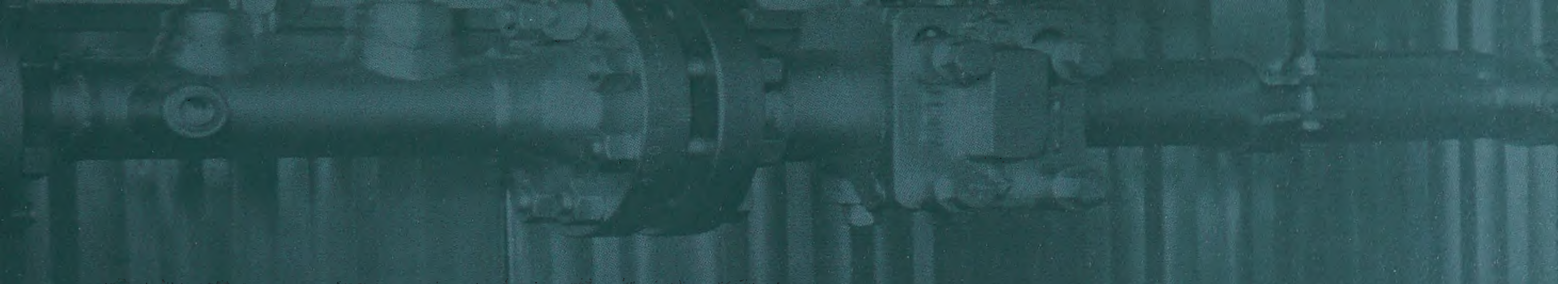


President's Message to Shareholders

1999 represented the first full year of production for the Company. Daily production volumes declined from 99 BOE/day in the preceding year to 69 BOE/day in the current year due to normal production declines as well as the shutting in of one gas producing well in the South Edson gas unit due to water incursion. The situation with the South Edson well has occurred previously and after a shut-in period of a few years we fully expect that the well will be placed back on production.

A large percentage (in excess of 86%) of Sheer's production is natural gas which is currently experiencing price appreciation. This is also reflected in our sales netbacks which increased from $18.76/BOE in 1998 to $26.76/BOE in 1999. Should current trends continue, further appreciation is expected in 2000.

Your management team has continued to pursue the acquisition of a "buy-back" project in Iran throughout the past year. We expect that we will know whether or not we will be successful in this venture within the 2000 fiscal year.

Subsequent to the end of the 1999 fiscal year, the Company sold one of its producing properties (Sousa) to a large Canadian producer for proceeds of $226,000. As well, some other small producing properties which were a part of the Krystal acquisition have been sold and will result in additional property sales revenues during the present fiscal year. These sales are deemed by your Board of Directors to be prudent as they have been at prices well in excess of appraised values. As a result of these sales, the Company has eliminated its entire short-term debt and currently has substantial cash balances on hand. Management intends to re-invest this cash together with its unused short-term credit facility in additional Canadian exploration and development opportunities to enhance reserves, production and cash flow as well as to offset tax liabilities arising from the property sales. The first such activity was a 50% participating interest in a potential gas project in the Kirby area of North Eastern Alberta; unfortunately the first well on this property was dry and abandoned and no further activity is expected on this project. Your management is continuing to evaluate additional opportunities.

The Company is also considering merger opportunities which would result in a more efficient organization and enhanced potential for growth.

OUTLOOK

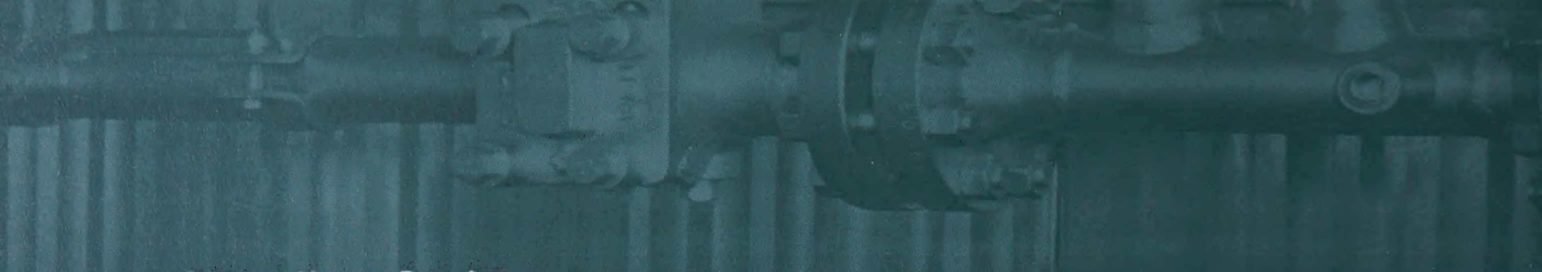
We fully expect the year 2000 to be an exciting one for Sheer Energy with many interesting opportunities currently under consideration. Your management and Board of Directors are committed to the enhancement of shareholder value and we feel that the current share price is not representative of the value which exists within the Company. This is supported by recent property sales which have been consummated at prices well in excess of both our historical costs and our appraised values.

We wish to thank our shareholders for their continued patience, support and confidence.

On behalf of the Board,

May 3, 2000
Calgary, Alberta

T. D. Lawrence
President



Operations Review

An evaluation of the Corporation's properties acquired from 747724 Alberta Ltd. was recently completed by Fekete Associates Inc., reporting remaining recoverable reserves and net present values as at December 31, 1999. An independent evaluation of the properties acquired from Krystal Energy Limited will likely be completed by the end of May and will be reported in the first quarter report to the shareholders. This value must be extracted from a larger evaluation of the properties which are managed by Signalta Resources Limited. The Krystal properties consist of small working interests in approximately 250 wells, the majority of which are natural gas producers. We can report that approximately 43% of the current daily production of Sheer Energy is derived from the Krystal acquisition while 57% comes from the property acquisition from 747724 Alberta Ltd.

The Krystal wells produce approximately 261 Mcf/d of natural gas and 3.6 barrels per day of crude oil and natural gas liquids net to Sheer's interest while the properties acquired from the numbered company produce approximately 337 Mcf/day and 5.7 barrels per day of crude oil and natural gas liquids net to the Company. Over 86% of the Company's revenues are generated from natural gas sales.

Fekete Associates Inc. has assigned a 12% net discounted present value of $1,178,900 to the proven plus probable reserves (probable risked at 50%) at December 31, 1999 versus a value of $911,000 at January 1, 1999. The increase in value is due to improved petroleum and natural gas prices.

Remaining recoverable reserves net to Sheer after royalties amount to 906,000 Mcf of natural gas and 27,000 barrels of oil and natural gas liquids.

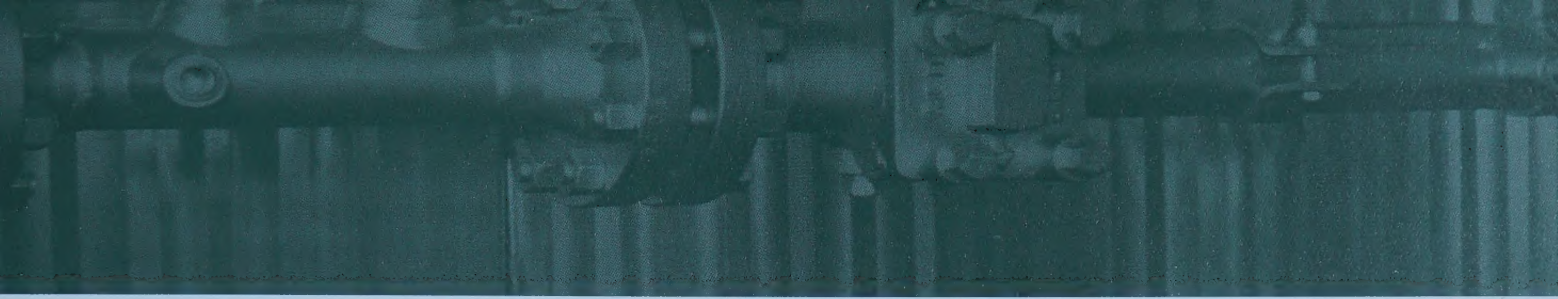
It is management's opinion that the remaining recoverable reserves from the Krystal properties will be in the order of 500,000 Mcf of natural gas and 4,000 barrels of oil and natural gas liquids, having a net present value at a 12% discount of approximately $600,000.

Total remaining recoverable reserves from all the Company's properties would therefore be approximately 1,400,000 Mcf of natural gas and 31,000 barrels of oil and natural gas liquids, with a net present value at a 12% discount of approximately $1,679,000.

Following is a brief description of the three major properties acquired from 747724 Alberta Ltd.

SOUTH EDSON GAS UNIT NO. 1

Sheer has an 8.9668% working interest in the South Edson Gas Unit No. 1 located west of Edmonton. The Unit covers 45,120 gross acres of land and produces natural gas from the Elkton-Shunda formations at a rate of 4,800 Mcf/d gross. Five wells are currently on production and three wells are shut-in or suspended. One additional well may be drilled during 2000 and a booster compressor may be installed in the next few years to reduce the flowing wellhead pressures and increase productivity. The 12% discounted cash flow value of proved producing and non-producing reserves is $612,000 while the probable, unrisked, would add another $144,000 to the value of the property.



SOUSA

At December 31, 1999 Sheer had a 0.9059% working interest and a 1.1211% gross overriding royalty in the Sousa Bluesky/Gething Gas Unit located in North Western Alberta.

The Unit covers 72,320 gross acres and commenced production in 1982. There are a total of 19 wells in the Unit, of which 17 are producing and two are suspended. The 12% discounted cash flow value of proved producing reserves within the unit was $180,600 net to Sheer's interests as per the Fekete Report of December 31, 1999. Subsequent to the year end, the Company sold this property for $226,000 which was substantially higher than the initial purchase price and the December 31, 1999 appraised value.

PINE CREEK

Sheer has a 5.7612% working interest in the Pine Creek Second White Specks "A" Pool Unit located west of Edmonton. Production commenced in early 1992 from the "A" pool. Three wells are currently on production and three wells are suspended. The 12% discounted cash flow value for the proved producing reserves within the Unit is calculated at $135,000 net to Sheer's interest.

MINOR PROPERTIES

Sheer also acquired minor working interests in three other oil Units from the numbered company. They are: Cynthia Cardium Unit No. 4, Snipe Lake Beaverhill Lake Unit No. 1 and Wainright Unit No. 6. Sheer's working interest in these three units ranges from 0.076% (Snipe Lake and Wainright) to 0.32% (Cynthia). Combined 12% discounted cash flow value for proved producing reserves, net to Sheer, is approximately $47,000.

FINANCIAL RESULTS

During the year, the Company changed its method of accounting for income taxes from the deferral method to the liability method of tax allocation as required by the Canadian Institute of Chartered Accountants' Handbook Section 3465. Although the adoption of this method is not required until the Company's 2000 fiscal year, management has decided on earlier adoption and has also applied the change retroactively as permitted.

Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption of the new recommendations income tax expense was determined using the deferral method of tax allocation. Future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

The earlier, and retroactive, adoption of this method resulted in a one time charge to retained earnings in the 1998 financial statements of $260,296, a reduction to future income taxes in 1998 of $27,475 and in 1999 of $23,056.

PRODUCTION VOLUMES AND REVENUES

Production volumes are based on the daily production which resulted in revenues to the account of Sheer Energy Inc. The total net production to the account of the Company in 1999 was 25,222 BOE (based on the conversion of 10 Mcf equalling one barrel of liquid).

12 months ended December 31,	**1999**		1998	
	$	**$/boe**	$	$/boe
Oil and Gas Revenue	**675,141**	**26.76**	390,297	18.76
Royalties net of ARTC	**(127,367)**	**(5.05)**	(69,422)	(3.34)
Interest	**244**	**0.00**	5,120	0.25
	548,018	**21.71**	325,995	15.67
Amortization	**143,078**	**5.67**	134,212	6.45
Operating Costs	**172,157**	**6.83**	106,772	5.13
General & Administration	**139,661**	**5.54**	81,324	3.91
Interest	**26,180**	**1.04**	11,267	0.54
Income Taxes	**19,951**	**0.78**	(2,223)	(0.10)
Future Site Restoration	**9,000**	**0.36**	7,520	0.36
Net Earnings (Loss)	**37,991**	**1.49**	(12,877)	(0.62)

Revenue per barrel of oil equivalent was up 43% from the preceding year due to higher product prices.

Royalties, net of ARTC, were up 51%/BOE due to higher prices and a lower ARTC rate which is also a function of product pricing.

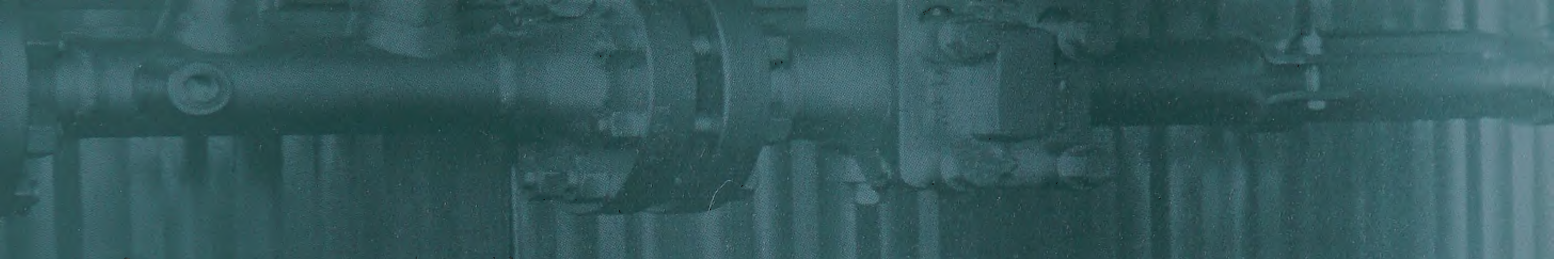
Amortization decreased 12%/BOE due to an increase in reserves.

Operating costs per BOE increased 33% due to fixed costs being spread over a lower daily production rate.

General and Administrative costs increased from $3.91/BOE to $5.54/BOE, an increase of 42%, due to an increase in consulting fees paid to management.

Interest costs increased from $0.54/BOE to $1.04/BOE, an increase of 93%, due to bank loans being carried over the entire fiscal year as opposed to only a portion of the preceding fiscal year.

Net earnings per BOE increased to $1.49 in the 1999 fiscal year.



Management's Report

To the Shareholders of Sheer Energy Inc.:

Management is responsible for the preparation of the Financial Statements in accordance with generally accepted accounting principles in Canada. The financial and operating information presented elsewhere in this annual report is consistent with that shown in the financial statements.

Management maintains systems of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner.

Hudson & Company, an independent firm of Chartered Accountants, has been engaged to examine the financial statements. Their report is presented with the financial statements. The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Kevin Maguire

Terrance D. Lawrence
President

Kevin M. Maguire
Treasurer

Auditors' Report

To the Shareholders of Sheer Energy Inc.:

We have audited the balance sheets of Sheer Energy Inc. as at December 31, 1999 and 1998 and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Hudson & Company

Calgary, Alberta
March 28, 2000

Hudson & Company
Chartered Accountants

Consolidated Balance Sheets

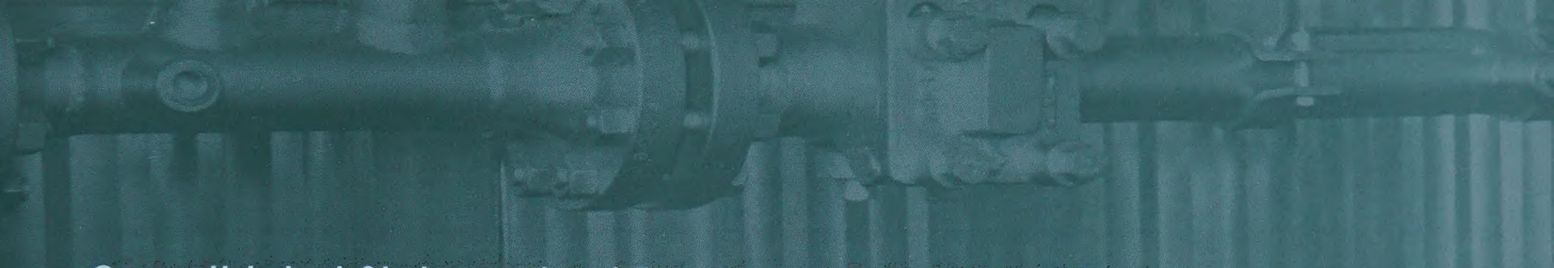
As at December 31	1999	1998*
ASSETS		
CURRENT		
Accounts receivable	$ 106,057	$ 176,753
Prepaid expenses	22,474	8,790
	128,531	185,543
CAPITAL ASSETS (Note 3)	1,167,029	1,119,826
	$ 1,295,560	$ 1,305,369
LIABILITIES		
CURRENT		
Accounts payable	$ 35,765	$ 115,035
Income taxes payable	31,197	36,925
Current portion of long-term debt	150,700	150,700
	217,662	302,660
BANK CREDIT FACILITY (Note 5)	119,857	143,343
LONG-TERM DEBT (Note 5)	118,757	269,457
FUTURE INCOME TAXES	209,765	232,821
FUTURE SITE RESTORATION COSTS	31,273	27,484
	697,314	975,765
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	833,711	603,060
RETAINED EARNINGS (DEFICIT)	(235,465)	(273,456)
	598,246	329,604
	$ 1,295,560	$ 1,305,369

* (restated)(see Note 7)

Approved on behalf of the Board:

T.D Lawrence
Director

Julio Poscente
Director



Consolidated Statements of Earnings and Retained Earnings

For the years ended December 31		1999		1998*
REVENUE				
Sales	$	**675,141**	$	390,297
Royalties, net of ARTC of $27,364 (1998 – $24,445)		**(127,367)**		(69,422)
Interest		**244**		5,120
		548,018		325,995
EXPENSES				
Amortization		**143,078**		134,212
Operating costs		**172,157**		106,772
Office		**74,393**		63,717
Consulting (Note 4)		**65,268**		17,607
Interest and bank charges		**26,180**		11,267
Provision for site restoration		**9,000**		7,520
		490,076		341,095
Earnings (loss) before income taxes		**57,942**		(15,100)
INCOME TAXES (Note 7)				
Current		**43,007**		36,925
Future (recovery)		**(23,056)**		(39,148)
		19,951		(2,223)
NET EARNINGS (LOSS)		**37,991**		(12,877)
RETAINED EARNINGS (DEFICIT), beginning of year		**(273,456)**		(283)
		(235,465)		(13,160)
Change in accounting policy (Note 7)		**-**		(260,296)
RETAINED EARNINGS (DEFICIT), end of year	$	**(235,465)**	$	(273,456)
Earnings (loss) per share				
- Basic (Note 8)	$	**0.01**	$	(0.01)
- Fully diluted		**0.01**		-

* (restated)(see Note 7)

Consolidated Statements of Cash Flows

For the years ended December 31		1999		1998*
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings (loss)	$	**37,991**	$	(12,877)
Items not affecting cash				
Amortization		**143,078**		134,212
Future income taxes (recovery)		**(23,056)**		(27,476)
Future site restoration costs		**3,789**		27,484
		161,802		121,343
Net change in non-cash working capital balances		**(27,986)**		(36,910)
Cash flows from operating activities		**133,816**		84,433
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of capital assets		**(190,281)**		(624,038)
Business acquisitions		**-**		(630,000)
Reclassification of start-up costs		**-**		31,351
Cash flows (used in) investing activities		**(190,281)**		(1,222,687)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term debt		**-**		450,000
Repayment of long-term debt		**(150,700)**		(29,843)
Issuance of share capital, net of issue costs		**230,651**		393,057
Cash flows from financing activities		**79,951**		813,214
INCREASE (DECREASE) IN CASH POSITION		**23,486**		(325,040)
CASH (BANK CREDIT FACILITY), beginning of year		**(143,343)**		181,697
CASH (BANK CREDIT FACILITY), end of year	$	**(119,857)**	$	(143,343)
Cash Flow Per Share				
- Basic (Note 8)	$	**0.03**	$	0.03
- Fully diluted		**0.02**		0.02

* (restated)(see Note 7)

GENERAL

Sheer Energy Inc. was formed at the close of business on December 31, 1998 pursuant to an amalgamation agreement between Sheer Energy Inc. and it's wholly owned subsidiary, Krystal Energy Limited.

The comparative financial statements include the accounts of the Company for the year ended December 31, 1998 and its wholly owned subsidiary, immediately before amalgamation, Krystal Energy Limited for the period from May 1, 1998 to December 31, 1998.

1. SIGNIFICANT ACCOUNTING POLICIES

Capital Assets

The Company follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized. Such costs include land acquisition costs, cost of drilling both productive and non-productive wells, and geological and geophysical expenses and related overhead.

Capitalized costs, excluding costs relating to unproven properties, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative sales value.

The Company applies a "ceiling test" to capitalized costs to ensure that the net costs capitalized do not exceed the estimated future net revenues from the production of its proven reserves, plus the cost of undeveloped lands, less impairment. Future net revenues are calculated at year end prices and include an allowance for estimated future general and administrative expense, interest expense, income taxes, and capital expenditures.

Gains or losses on the disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a change in the depletion rate of 20% or more.

Amortization of furniture and office equipment is provided using the declining balance method at an annual rate of 20%.

Interest in Joint Ventures

Substantially all of the Company's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

Future Site Restoration and Abandonment Costs

Site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Company's engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

Income Taxes

The Company follows the asset and liability method for accounting for income taxes. Under the asset and liability method, the change in the future tax asset or liability is to be included in income. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Measurement Uncertainty

The amounts recorded for depletion and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Earnings Per Share

Earnings per share amounts are calculated using the weighted average number of shares outstanding during the year. Fully diluted earnings per share reflect the exercise of options and warrants at the later of the date of issuance or the beginning of the year. Fully diluted amounts for the comparative year have not been presented as the amount would be anti-dilutive.

2. BUSINESS ACQUISITIONS

a) Effective May 1, 1998, the Company acquired all of the issued and outstanding common shares of Krystal Energy Limited. The acquisition was accounted for using the purchase method with the results of operation being included from the date of acquisition.

Allocation:		
Petroleum and natural gas properties	$	501,760
Oil and gas equipment		125,440
Other, net		2,800
	$	630,000
Purchase consideration:		
Cash	$	330,000
Long-term debt		300,000
	$	630,000

At the close of business on December 31, 1998, Krystal Energy Limited and Sheer Energy Inc. amalgamated into Sheer Energy Inc. Under the terms of the amalgamation agreement, the common shareholders of old Sheer Energy Inc. were confirmed to be the same shareholders of the new Sheer Energy Inc.

b) Effective July 1, 1998, the corporation acquired substantially all of the petroleum and natural gas properties of 747724 Alberta Limited. The acquisition was accounted for as follows:

Net assets acquired:		
Petroleum and natural gas properties	$	460,000
Oil and gas equipment		115,000
	$	575,000
Purchase consideration:		
Cash	$	410,000
Common shares issued 550,000 @ $ 0.30		165,000
	$	575,000

Costs of approximately $30,000 relating to these acquisitions have been capitalized.

3. CAPITAL ASSETS

				Accumulated	Net Book Value			
		Cost		Amortization		**1999**		1998
Petroleum and natural gas properties and equipment								
Producing	$	1,232,206	$	276,181	$	**956,025**	$	1,083,859
Non-producing		205,581		–		**205,581**		33,690
Office furniture and fixtures		6,532		1,109		**5,423**		2,277
	$	1,444,319	$	277,290	$	**1,167,029**	$	1,119,826

4. RELATED PARTY TRANSACTIONS

During the year, consulting fees of $60,000 (1998 – $10,000) were made to officers and directors of the Company under similar terms and conditions as with third parties.

5. BANK CREDIT FACILITY AND LONG-TERM DEBT

		1999		1998
Production loan #1 repayable in monthly payments of $8,333 plus interest at prime plus 1%, due October 31, 2001.	**$**	**182,832**	$	286,875
Production loan #2 repayable in monthly payments of $4,225 plus interest at prime plus 1%, due October 31, 2001.		**86,625**		133,282
		269,457		420,157
Less: current portion		**150,700**		150,700
	$	**118,757**	$	269,457

Principal repayments due as follows:

2000	**$**	**150,700**
2001		**118,757**
	$	**269,457**

A bank credit facility to a limit of $150,000 is available by way of account overdraft to assist with the acquisition and development of oil and gas reserves. Interest is charged at prime plus 1%.

Collateral lodged by the Company to support the bank loans is as follows:

(i) a general security agreement providing a fixed charge over all assets
(ii) an assignment of all risk insurance proceeds
(iii) environmental liability

6. SHARE CAPITAL

Authorized

Unlimited number of common voting shares

Unlimited number of first preferred non-voting shares

Issued

	Number of Shares		Amount
Issued on incorporation	2,100,003	$	210,003
Issued on initial public offering, net of share issue costs of $46,943	1,450,000		228,057
Issued to acquire petroleum and natural gas properties (Note 2)	550,000		165,000
Issued and outstanding, December 31, 1998	4,100,003		603,060
Issued in a private placement, net of legal costs of $5,850	592,860		201,651
Exercise of share options	145,000		29,000
Issued and outstanding, December 31, 1999	4,837,863	$	833,711

Escrow Shares

Included in shares issued is 2,100,003 common shares which were held in escrow, of which, 700,001 shares were released from escrow during 1999. The Company has received permission from the Alberta Securities Commission to release the remaining shares from escrow as follows:

700,001 shares	September 14, 2000
700,001 shares	September 14, 2001

Stock Options

The Company has established a Stock Option Plan for the benefit of directors, officers, and key employees and consultants of the Company. Pursuant to the Stock Option Plan, options for a total of 350,000 common shares were granted to directors of the Company. These options may be exercised within five years of issuance at a price of $0.20 per share.

In connection with its initial public offering, the Company granted to its agent an option to purchase up to 145,000 common shares at a price of $0.20 per common share. This option was exercised during 1999.

7. INCOME TAXES

The income tax provision differs from the expected amount calculated by applying the Canadian combined Federal and Provincial tax rate of 44.6 percent as follows:

		1999		1998
Expected income tax expense (recovery)	**$**	**25,842**	$	(6,735)
Non-deductible crown charges and other payments		**63,529**		42,296
Federal resource allowance		**(36,729)**		(17,640)
Alberta Royalty Tax Credit		**(12,204)**		(10,907)
Reversal of temporary differences		**(21,367)**		(9,237)
Other		**880**		-
	$	**19,951**	$	(2,223)

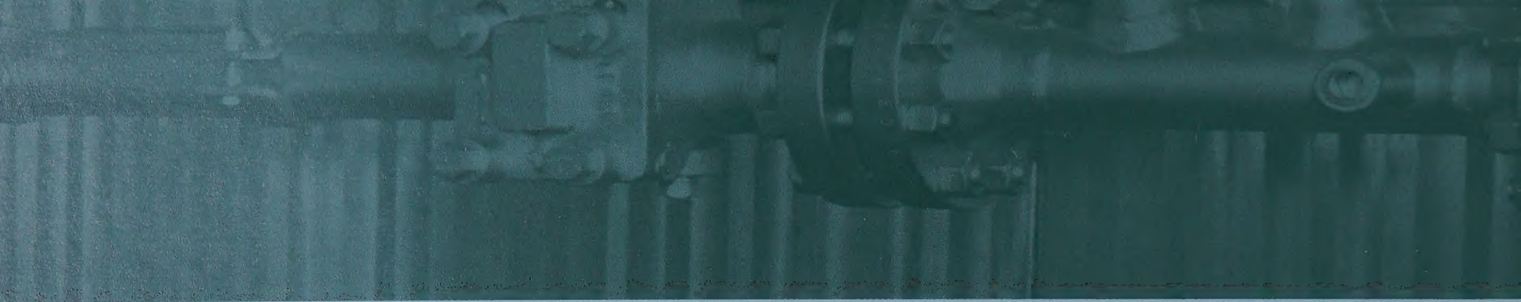
Effective January 1, 1999 the Company changed its method of accounting for income taxes from the deferral method to the liability method (Future Income Taxes) of allocation. The prior year's financial statements have been restated to reflect the adoption of the new accounting standard. The cumulative effect of this change is to decrease the opening retained earnings by $260,296. The adjustment to retained earnings was a result of recognition of the future tax cost of the Krystal Energy Limited acquisition where the tax basis acquired was less than the purchase price.

At December 31, 1999 the Company had the following estimated balances available to apply against future years' taxable income:

Undepreciated capital cost	$	113,036
Canadian oil and gas property expense	$	367,372
Foreign exploration and development expenses	$	185,022

8. EARNINGS (LOSS) AND CASH FLOW PER SHARE

Basic earnings (loss) per share amounts have been calculated based upon the weighted average number of shares outstanding during the year of 4,383,278 (1998 – 3,573,016). Fully diluted loss per share for 1998 has not been disclosed as it is anti-dilutive.



9. FINANCIAL INSTRUMENTS

Credit Risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience difficulty and be unable to fulfill their obligations. The Company is exposed to financial risk that arises from the credit quality of the entities to which it provides services.

Its customers expose the Company to credit risk. However, because of the nature of the oil and gas industry, credit risk concentration is minimized.

Interest Rate Risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates used on their financial instruments.

Variable Interest Rates

The long-term debt bears variable interest rates. The effective interest rate realized during the year was 7.6% (1998, 8.1%). The average interest rate was 7.4% (1998, 7.9%).

The bank indebtedness bears a variable interest rate of prime + 1.0%. The effective interest rate realized during the year was 9.3% (1998, 8.9%). The average interest rate was 7.4% (1998, 8.0%).

Fair Values

The fair values for accounts receivable, accounts payable and accrued liabilities approximates their carrying values due to the short maturity of those instruments.

The carrying values for bank credit facility, long-term debt and future site restoration costs approximated the fair values.

10. SEGMENTED INFORMATION

In 1998 the Company commenced business activity in Iran. The accounting policies followed by the Canadian segment are also followed by the Iranian segment.

1999	Canada	Iran	Total
Corporate revenue	$ 675,141	$ –	$ 675,141
Corporate expenses	617,199	–	617,199
Income from operations	$ 57,942	$ –	$ 57,942
Identifiable assets	$ 1,084,555	$ 205,582	$ 1,290,137
Corporate assets	5,423	–	5,423
Total assets	$ 1,089,978	$ 205,582	$ 1,295,560

1998	Canada	Iran	Total
Corporate revenue	$ 390,297	$ –	$ 390,297
Corporate expenses	405,397	–	405,397
Loss from operations	$ (15,100)	$ –	$ (15,100)
Identifiable assets	$ 1,269,402	$ 33,690	$ 1,303,092
Corporate assets	2,277	–	2,277
Total assets	$ 1,271,679	$ 33,690	$ 1,305,369

11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

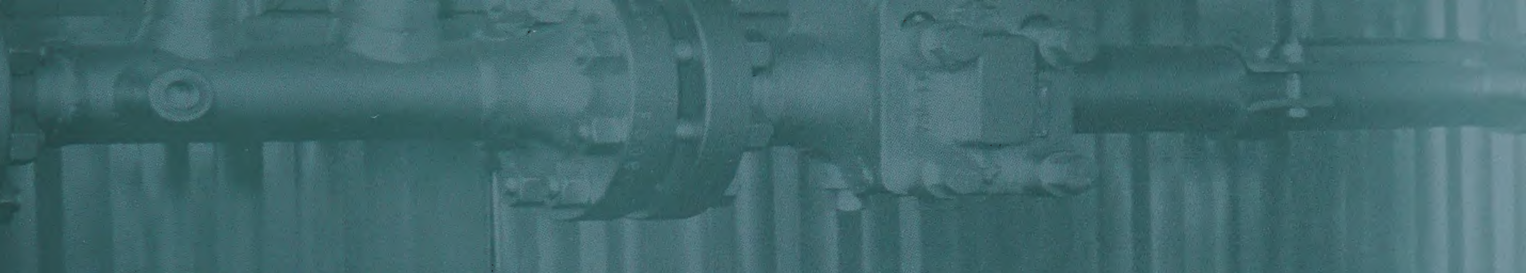
The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties have been fully resolved.

12. COMPARATIVE FIGURES

Certain changes have been made to the comparative figures to correspond with current year presentation.

13. SUBSEQUENT EVENT

Subsequent to year end, the Company sold a property for $226,200.



Corporate Information

OFFICERS AND DIRECTORS

Terrance D. Lawrence
President and Director

Dario E. Sodero
Vice President and Director

Kevin M. Maguire
Treasurer and Director

Charles S. Cook
Director

Julio Poscente
Director

William C. Ranson
Secretary

BANKERS

HSBC Bank Canada
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STOCK EXCHANGE LISTING

The Canadian Venture Exchange
Symbol: "SHU"

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Calgary, Alberta
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SOLICITORS

Ranson, Smith, Barnes
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